

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

RIVER ROUGE HOUSING COMMISSION

Financial Statements

June 30, 2005

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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As management of the River Rouge Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the River Rouge Housing Commission's financial activities for the FYE 6/30/05. This discussion and analysis letter of the River Rouge Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities). It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

River Rouge Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 6/30/05:

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	634,280	553,868	80,412	14.52%
Capital Fund Program Grants	1,089,385	680,312	409,073	60.13%
Sec. 8 Voucher	<u>1,428,045</u>	<u>788,090</u>	<u>639,955</u>	<u>81.20%</u>
Total	3,151,710	2,022,270	1,129,440	55.85%

The subsidies for both Public Housing and Section 8 increased. Public Housing subsidy increased due to both increases in estimated utility costs and decreases in our rent rolls. Sec. 8 subsidy increased due to a new increment of 135 units (more than doubling our program) coming on line in August. The increase in the Capital Fund Program was due to the fact that work projects during FYE 6/30/05 progressed along at a more rapid pace than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 6/30/05 than in FYE 6/30/04.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	853,780	216,840	636,940	293.74%
Total Current Assets, net of inter-program (due from)	1,142,523	478,982	663,541	138.53%
Fixed Assets, Net of Depreciation	6,399,832	6,196,842	202,990	3.28%
Total Liabilities, net of inter-program (due to)	859,694	352,660	507,034	143.77%
Total Equity/Net Assets	6,682,661	6,323,164	359,497	5.69%

Cash and Investments increased substantially. This was mostly due to the influx of excess cash for our new Sec. 8 Voucher program. We also had a substantial increase in Public Housing cash, representative of the Operating Income for the fiscal year in the Public Housing program.

Total Current Assets increased primarily due to the increases in cash as discussed above.

Fixed Assets increased by \$767,306; this increase represents several capital projects funded through the Capital Fund Programs. Although Fixed Assets increased by \$767,306, this was offset by depreciation charges of \$564,316, resulting in the net increase stated in the above table.

Total Liabilities decreased due to two factors. During FYE 6/30/05 we began to prepare our payroll in-house, although our benefits are still administered through the City. In prior years, the payroll processing was maintained by the City and we were billed quarterly for our benefit expenses after the calendar quarter had ended. Therefore, at 6/30/04 we showed a payable of \$88,032 for payroll & benefits as of 6/30/04. At 6/30/05, we only had payroll payable representing one weekly pay period. Secondly, we are showing a payable to HUD as of 6/30/05 in the Sec. 8 Voucher program of \$484,675. This represents cash distributed to us for the new increment in excess of our HAP costs for this increment during fye 6/30/05. Subsequent to this report, we have now been instructed by HUD through PIH Notice #2006-03 to reclassify this in the Equity section for future years.

Total Net Assets (Equity) increased slightly.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues:				
Tenant Revenue	552,818	417,493	135,325	32.4%
Other Revenue	<u>7,236</u>	<u>12,082</u>	<u>(4,846)</u>	-40.1%
Total PHA generated Revenue	560,054	429,575	130,479	30.4%
Operating Subsidies	2,357,729	1,559,471	798,258	51.2%
Capital Grants	<u>793,981</u>	<u>462,799</u>	<u>331,182</u>	71.6%
Total Revenue	3,711,764	2,451,845	1,259,919	51.4%
Expenses:				
Administrative	546,569	506,596	39,973	7.9%
Tenant Services	47,772	100,695	(52,923)	-52.6%
Utilities	155,884	119,624	36,260	30.3%
Maintenance	550,271	565,128	(14,857)	-2.6%
General	189,615	213,926	(24,311)	-11.4%
Casualty Losses	15,178	0	15,178	
Housing Assistance Payments	1,256,991	723,300	533,691	73.8%
Depreciation	<u>589,987</u>	<u>561,000</u>	<u>28,987</u>	5.2%
Total Expenses	3,352,267	2,790,269	561,998	20.1%
Net Increase (Decrease)	359,497	(338,424)		

Revenues:

River Rouge Housing Commission's primary revenue sources are subsidies and grants received by HUD. Revenue received from HUD in FYE 6/30/05 for Public Housing and for Sec. 8 increased as previously discussed from fye 6/30/04 to 6/30/05. For FYE 6/30/05, revenue generated by the Commission accounted for \$560,054 (or 15% of total revenue), while HUD contributions accounted for \$3,151,710 (or 85% of total revenue).

Expenses:

Total Expenses for FYE 6/30/04 were \$2,790,269 while for FYE 6/30/05 the total was \$3,352,267. This represents a 20.1% increase in our Operating Costs, an amount that can be substantially attributed to HAP costs in the Sec. 8 Voucher program due to the new increment coming on line. If we compare the Operating Expenses of the two years excluding HAP, our Operating Costs increased just 1.4%.

Operating Income or Loss:

While we sustained an Operating Loss at 6/30/04 of \$338,424, we posted Operating Income for fye 6/30/05 of \$359,497. This is almost a \$700,000 turnaround in our financial statements during the two years.

Budget Analysis:

A Low Rent Public Housing Operating Budget for fye 6/30/05 was presented to and approved by the Board of Commissioners. One budget revision was required during fye 6/30/05. Actual results were in line with budgeted amounts.

Entity-Wide Operational Highlights:

The River Rouge Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>
Low Rent Public Housing	300	300
Sec. 8 Voucher	249	114

During FYE 6/30/05, River Rouge Housing Commission maintained a lease-up rate of 88.3% in its Public Housing Program and a lease-up rate of 99.9% in its Section 8 program. The lease-up rate for Public Housing is under the HUD-prescribed target of 97%. Although some of these vacancies were due to modernization work, we are working to increase our lease-up rates.

During FYE 6/30/05, our Capital Fund Program work projects included:

- Porch Canopies replaced at MI 8-4
- Basement block windows installed at MI 8-4
- New furnaces installed at MI 8-4
- Cement and concrete work for porches, ramps, and sidewalks throughout MI 8-4
- Windows replaces at MI 8-4
- Purchased ranges and refrigerators
- Upgrades the Office HVAC system
- Purchased new computer system for Office
- Installed security cameras at the Community Building

Economic Factors and Next Year's Budget and Rates

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Miranda White, Executive Director
River Rouge Housing Commission
180 Visger Rd.
River Rouge, MI 48218

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
River Rouge Housing Commission
180 Visger Road
River Rouge, Michigan 48218

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the River Rouge Housing Commission as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the River Rouge Housing Commission as of March 31, 2005, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

March 1, 2006

RIVER ROUGE HOUSING COMMISSION
Statement of Net Assets
June 30, 2005

ASSETS

C-3031

CURRENT ASSETS

Cash	\$	853,780	
Accounts Receivable, net of allowance for doubtful accounts 78,300)		19,142	
Accounts Receivable- Other		193,243	
Prepaid Expenses		<u>76,358</u>	
Total Current Assets	\$		1,142,523

NON CURRENT ASSETS

Land	\$	341,343	
Buildings		3,441,197	
Furniture, Equipment- Dwellings		140,684	
Furniture, Equipment- Administrative		179,444	
Construction in Progress		7,895,907	
Accumulated Depreciation		<u>(5,598,743)</u>	
Total Non Current Assets			<u>6,399,832</u>

<u>TOTAL ASSETS</u>	\$	<u>7,542,355</u>
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RIVER ROUGE HOUSING COMMISSION
Statements of Net Assets
June 30, 2005

LIABILITIES

C-3031

CURRENT LIABILITIES

Accounts Payable	\$	79,622	
Account Payable-HUD		484,675	
Accrued Liabilities		85,754	
Accrued Compensated Absences		3,332	
Tenants Security Deposit		49,497	
Deferred Revenue		<u>126,827</u>	
<u>Total Current Liabilities</u>	\$		829,707

NONCURRENT LIABILITIES

Compensated Absences-noncurrent		<u>29,987</u>	
<u>Total Liabilities</u>	\$		<u>859,694</u>

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	6,399,832	
Unrestricted Net Assets		<u>282,829</u>	
<u>Total Net Assets</u>			<u>6,682,661</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION
Combined Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended June 30, 2005

REVENUE

Tenant Rental Revenue	\$ 512,537
Tenant Revenue-Other	40,281
HUD Grants	3,151,710
Interest Income	904
Other Income	<u>7,336</u>
<u>Total Revenue</u>	\$ 3,712,768

EXPENSES

Administrative	\$ 546,569
Tenant Services	47,772
Utility Expenses	155,884
Ordinary Maintenance	550,271
General Expenses	<u>189,615</u>
<u>Total Expenses</u>	<u>1,490,101</u>
<u>Excess (Deficiency) of Revenues over Expenses</u>	\$ 2,222,667

OTHER SOURCES & (USES)

Housing Assistance Payments	\$ (1,256,991)
Casualty Losses	(15,178)
Loss on Sale of Assets	(1,004)
Depreciation Expenses	<u>(589,987)</u>
<u>Total Other Sources (Uses)</u>	<u>(1,863,160)</u>
<u>Change in Net Assets</u>	\$ 359,507
Total Net Assets- Beginning	<u>6,323,164</u>
Total Net Assets- Ending	\$ <u>6,682,661</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2005

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 502,754
Payments to Suppliers	(1,913,874)
Payments to Employees	(318,913)
HUD Grants	3,151,710
Other Receipts (Payments)	<u>8,240</u>
Net Cash Provided (Used) by Operating Activities	\$ 1,429,917

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(792,977)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 636,940
Balance- Beginning of Year	<u>216,840</u>
Balance- End of Year	\$ <u>853,780</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 359,497
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	589,987
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	18,588
Prepaid Expenses	(45,189)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(40,628)
Accrued Liabilities	434,323
Compensated Absences	(11,804)
Security Deposits	2,154
Deferred Revenue	<u>122,989</u>
Net Cash Provided by Operating Activities	\$ <u>1,429,917</u>

The Accompanying Notes are an Integral part of the Financial Statements

RIVER ROUGE HOUSING COMMISSION
Notes to Financial Statements
June 30, 2005

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

River Rouge Housing Commission, River Rouge, Michigan, (Commission) was created by ordinance of the city of River Rouge. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 8-1, 4	Low rent program	300 units
MI 28V 008	Section 8 Vouchers	249 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. The Financial Data Schedule lists all the programs of the Reporting Entity including component units should they exist, as defined above. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not interfere with Government Accounting Standards Board, (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed; all Interfund activity on the financial data schedule (FDS) have been eliminated on the upper level financial statements.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15-40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 853,580
Petty Cash	<u>200</u>
Financial Statement Total	<u>\$ 853,780</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 853,580	\$	\$	\$ 853,580	\$ 853,580
Petty Cash	<u>200</u>			<u>200</u>	<u>200</u>
Total Cash	\$ <u>853,780</u>	\$	\$	\$ <u>853,780</u>	\$ <u>853,780</u>

Note 3: Accounts Receivable (net)

Accounts receivable (net) consists of the following:

Accounts Receivable- HUD	\$ 187,342
Accounts Receivable- Miscellaneous	<u>5,901</u>
Financial Statement Total	\$ <u>193,243</u>

Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ <u>76,358</u>
-------------------	------------------

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
Land	\$ 341,343	\$	\$	\$ 341,343
Buildings	3,441,197			3,441,197
Furniture & Equipment-Dwellings	118,738	21,946		140,684
Furniture & Equipment-Admin	194,376	10,739	25,671	179,444
Leasehold Improvements	<u>7,135,615</u>	<u>760,292</u>		<u>7,895,907</u>
	\$11,231,269	\$ 792,977	\$ 25,671	\$11,998,575
Less Accumulated Depreciation	<u>5,034,427</u>	<u>589,987</u>	<u>25,671</u>	<u>5,598,743</u>
	\$ <u>6,196,842</u>	\$ <u>202,990</u>	\$	\$ <u>6,399,832</u>

Notes to Financial Statements- continued

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ 17,368
Accrued Utilities	<u>68,386</u>
Financial Statement Total	<u>\$ 85,754</u>

Note 7: Retirement.

The Commission participates in the pension plan for the City of River Rouge. The Commission contributes a percentage of eligible employees wages to a qualified pension plan. Statistics of the plan and statistical data are contained in a separate report provided by the city.

Note 8: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 9: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 10: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 24,388,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

River Rouge Housing Commission

30-Jun-05

MI008

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	269,040	584,740	-	853,780
112	Cash - restricted - modernization and developmen	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	269,040	584,740	-	853,780
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects		-		-
122	Accounts receivable - HUD other projects	-	-	187,342	187,342
124	Accounts receivable - other governmen				-
125	Accounts receivable - miscellaneous	4,534	1,367		5,901
126	Accounts receivable- tenants - dwelling rents	49,147			49,147
126.1	Allowance for doubtful accounts - dwelling rents	(32,300)			(32,300)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- curren				-
128	Fraud recovery	48,295			48,295
128.1	Allowance for doubtful accounts - fraud	(46,000)			(46,000)
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful account	23,676	1,367	187,342	212,385
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	76,358			76,358
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	274,524	-	-	274,524
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	643,598	586,107	187,342	1,417,047
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	341,343			341,343
162	Buildings	3,441,197			3,441,197
163	Furniture, equipment & machinery - dwellings	63,780	-	76,904	140,684
164	Furniture, equipment & machinery - admininstrator	132,906	-	46,538	179,444
165	Leasehold improvements	7,104,615		791,292	7,895,907
166	Accumulated depreciation	(5,569,560)	-	(29,183)	(5,598,743)
160	Total fixed assets, net of accumulated depreciator	5,514,281	-	885,551	6,399,832
171	Notes and mortgages receivable - non-curren				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	5,514,281	-	885,551	6,399,832
190	TOTAL ASSETS	6,157,879	586,107	1,072,893	7,816,879

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	79,022	600		79,622
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	17,368	-		17,368
322	Accrued compensated absences	3,332			3,332
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		484,675		484,675
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	49,497			49,497
342	Deferred revenues	126,827	-		126,827
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	68,386			68,386
347	Inter-program - due to	-	87,182	187,342	274,524
310	TOTAL CURRENT LIABILITIES	344,432	572,457	187,342	1,104,231
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	29,987			29,987
350	TOTAL NONCURRENT LIABILITIES	29,987	-	-	29,987
300	TOTAL LIABILITIES	374,419	572,457	187,342	1,134,218
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	5,514,281	-	885,551	6,399,832
	Reserved fund balance:				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	269,179	13,650		282,829
513	TOTAL EQUITY	5,783,460	13,650	885,551	6,682,661
600	TOTAL LIABILITIES AND EQUITY	6,157,879	586,107	1,072,893	7,816,879

Proof of concept

Depreciation Add Back

River Rouge Housing Commission

30-Jun-05

MI008

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	512,537			512,537
704	Tenant revenue - other	40,281			40,281
705	Total tenant revenue	552,818	-	-	552,818
706	HUD PHA grants	634,280	1,428,045	1,089,385	3,151,710
708	Other government grants				-
711	Investment income - unrestricted	904	-	-	904
712	Mortgage interest income				-
714	Fraud recovery		1,587		1,587
715	Other revenue	4,898	851	-	5,749
716	Gain or loss on the sale of fixed assets	(1,004)			(1,004)
720	Investment income - restrictec				-
700	TOTAL REVENUE	1,191,896	1,430,483	1,089,385	3,711,764
	EXPENSES:				
	Administrative				
911	Administrative salaries	95,047	97,953	96,424	289,424
912	Auditing fees	5,250	-		5,250
913	Outside management fees				-
914	Compensated absences	(11,804)			(11,804)
915	Employee benefit contributions- administrative	44,821	32,008	33,116	109,945
916	Other operating- administrative	107,817	43,439	2,498	153,754
	Tenant services				
921	Tenant services - salaries			29,489	29,489
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services			12,000	12,000
924	Tenant services - other	6,283			6,283
	Utilities				
931	Water	141,821			141,821
932	Electricity	9,918			9,918
933	Gas	4,145			4,145
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	-			-
942	Ordinary maintenance and operations - materials & other	29,341		-	29,341
943	Ordinary maintenance and operations - contract costs	517,185		3,745	520,930
945	Employee benefit contributions- ordinary maintenance	-			-
	Protective services				

RIVER ROUGE HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3031 Operating Subsidies	\$ <u>634,280</u>
* <u>CFDA 14.871 Housing Assistance Program</u>	
C-3131 Section 8 Housing Choice Program	\$ <u>1,428,045</u>
* <u>CFDA 14.872 Capital Projects Funds</u>	
C-3031 Capital Projects Program	\$ <u>1,089,385</u>
	\$ <u>3,151,710</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 24,388,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders:	
required by the State of Michigan	

*Connotes Major Program Category

RIVER ROUGE HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2005

The prior audit of the River Rouge Housing Commission for the period ended June 30, 2004, contained four audit findings; the following represents the status of those findings:

- 1) Tenant Accounting Discrepancies- Section 8; income verification discrepancies are still present, see findings.
- 2) Tenant Accounting Discrepancies- Low Rent Program; all files contained the rent choice and citizenship forms, however, see current findings for inspection discrepancies.
- 3) Excessive Accounts Receivable- accounts receivable have increased; see findings.
- 4) Credit Card Policy- the Commission adopted an acceptable policy.

RIVER ROUGE HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
June 30, 2005

Compliance

I have audited the compliance of River Rouge Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. River Rouge Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of River Rouge Housing Commission's management. My responsibility is to express an opinion on River Rouge Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about River Rouge Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of River Rouge Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Tenant Accounting Discrepancies	05-1	Eligibility
Confirmatory Review	05-2	Activities allowed or allowable; procurement
Excessive Tenant Accounts Receivable	04-3	Program Income
Section 8 Housing Choice Vouchers:		
Tenant Accounting Discrepancies	04-1	Eligibility

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of River Rouge Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered River Rouge Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

March 1, 2006

RIVER ROUGE HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2005

I have audited the financial statements of River Rouge Housing Commission, River Rouge, Michigan, as of and for the year ended June 30, 2005, and have issued my report thereon dated March 1, 2006. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether River Rouge Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered River Rouge Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

March 1, 2006

RIVER ROUGE HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2005

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Program	X	
Capital Projects	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted _____ Yes X No

Non Compliance material to financial statements noted _____ Yes X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted _____ Yes X No

Reportable condition(s) noted X Yes _____ No

Non Compliance material to financial statements noted _____ Yes X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did not qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	04-3; 05-1; 05-2
Housing Assistance Program	Yes	None	04-1
Capital Projects Funds	Yes	None	N/A

RIVER ROUGE HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
June 30, 2005

The following finding of the River Rouge Housing Commission, for the year ended June 30, 2005, were discussed with the Director, Ms. Miranda White, in an exit interview conducted March 1, 2006.

Finding 04-1: Tenant Accounting Discrepancies- Section 8 Housing Choice Program

Nine tenant files were tested; 3 used incorrect income in the rent calculation, one used the incorrect utility allowance.

This is a repeat finding.

Recommendation

The above errors were the result of using incorrect data after verifying the income; the information in the file did not agree with the data on the third party confirmation. The incorrect utility allowance was the result of using the wrong bedroom size in the calculation.

I recommend the Commission implement review processes of the data entered into the software to insure that the data reflects the results of the verification process.

Reply

I concur with your recommendations. To correct this deficiency, the Executive Director will perform periodic file checks to ensure that 3rd party verification information is correctly entered into our software system and that the file is updated. This will reduce the potential for incorrect data and calculations. While Section 8 staff gives their best effort to properly calculate, it is apparent that enough follow-up is not being given to 3rd party verification returned. As this is a slow and tedious process with only 2 staff members to manage process, recertify and maintain 249 Section 8 voucher holders, landlords and Section 8 waiting list applicants, we are moving forward in correcting deficiencies. The Executive Director will continue to monitor and periodically perform random file checks to ensure compliance and to clear up this repeated finding.

Finding 4-3: Excessive Tenants Accounts Receivable

The Commission's tenant accounts receivable has doubled since the previous year; the average per unit outstanding balance is \$ 163., however, the retro active rent is an additional \$ 161 per unit. HUD prescribes an average of \$ 15 per unit to be reasonable.

Recommendation

The Commission started using the up front verification system; the result was that many families had unreported income- the current accounts receivable did not change over the prior year (average 2004 \$ 158, average 2005 \$ 161). However, the retro active rents recorded resulted in another \$ 48,295, or an additional \$ 161. per unit. The total average per unit outstanding tenant accounts receivable is \$ 322, or \$ 97,442; the total tenants accounts receivable in 2004 was \$ 47,378.

Obviously the level of accounts receivable is unacceptable; even with repayment agreements it will take years to recover from retro-active rent recorded in the current year. In addition, the current accounts receivable have not decreased in the past year and remain too high.

I would recommend HUD consider waiving the past due rent if the tenant would bring their current balance up to date, or some other allowance which allows the current tenants to continue if paid in full. Otherwise the Commission will have failing scores for years trying to catch up; an alternative would be to enforce a strict payment plan and start evicting tenants for late payments. This would result in lowering the balance, but at the cost of many vacancies.

I recommend the Commission begin enforcing the collection policy and work with HUD to try and resolve the past due amounts.

Reply

I agree with your recommendations and will continue to work with the HUD field office to resolve outstanding tenant accounts receivables due to upfront verifications. We have given much due diligence in enforcing our collection policy which has resulted in increased unit turn over with 82 vacancies reported for FY2005 and 48 vacancies reported for FY2004. So, therefore, we are enforcing the collection policy. Over the past year, we have applied strict enforcement on repayment plans and have evicted tenants for non-payments. We also continue to present the necessary write-off to the Board of Commissioners for those accounts who move-out without notice. I am in complete agreement that the level of accounts receivables is unacceptable and this process due to underreported or unreported income. I will continue to work with our software company to devise a way to accurately reflect the affects of Rental Integrity Monitoring and repayment agreements for retro rent. Again, I agree that it will take several years to correct our tenant accounts receivables. We are reminded that we are working with low-income families whose accounts have been affected by upfront income verification. I anticipate that this will again be a finding for FY2006.

Finding 5-1: Tenant Accounting Discrepancies- Low Rent Program

A review of 10 tenant files revealed the following discrepancies:

Inspections were conducted on all units, however, units that failed did not correct the deficiencies within the 30 days as prescribed by HUD; as of the date of the audit, several had not been re-inspected to insure the repairs have ever been done.

Recommendation

The Commission is behind in filing the inspection reports; two years of inspections remain unfilled- approximately 20% of the units failed and the repairs have not been completed within 30 days as required by HUD.

I recommend the Commission consider overtime or hire additional staff to get the filing caught up; also, I would recommend the Commission consider an outside inspection company to complete the inspections timely, and follow up on required work orders. The Commission out-sources all repairs, therefore, monitoring seems to be the main issue- required repairs are not being scheduled and follow-up inspections have not been completed timely.

Reply

I agree with your recommendations of contracting inspection services out to ensure timely completion of inspections. The Public Housing Manager has the sole responsibility of conducting and completing unit inspections and follow-up inspections. Work orders from inspections have not been generated in a timely manner and continue to plague public housing. Our large number of units turned around has addressed many of the deficiencies found during inspections and has eliminated the need to do follow ups on several units. Our proposed fix includes the recent appointment of the Mod Coordinator as Contracting Officer to assist in the dissemination of work orders to contractors for repairs. We are researching to prepare an RFP for inspection services by an outside contractor to assist in the timely follow, filing and completion of unit inspections.

Finding 5-2: Confirmatory Review

The Commission became troubled in fiscal year 2004 and HUD ordered a confirmatory review; a firm by the name of Mitchell & Titus conducted the review in 2005. The report mentioned numerous deficiencies and HUD proposed a memorandum of agreement (MOA).

Recommendation

The Commission has some obvious problems; excessive accounts receivable, non compliance in both the Low Rent Program and Section 8 files, some procurement concerns, etc. However, micro management is not a solution. HUD should insist on compliance and give the Commission assistance resolving administrative issues and guidance on fiscal matters; but over reporting and excessive monitoring will limit managements ability to conduct the affairs of the Commission.

I recommend that the Commission continue to work with HUD to resolve the issues discussed in the MOA.

Reply

I completely agree with the obvious problems that exist within our agency and clearly believe that our best efforts are being hampered by increased on-line reporting requirements, moving to project based managements, along with the micro-management and due diligence needed to fulfill the terms of the Memorandum of Agreement we are under with the HUD Field Office. In many instances and on several occasions we have been delayed in getting the work done because of trivial complaints, lengthy responses and interruptions to daily operations. The MOA encompasses the area of governance and we are currently undergoing a hierarchy change and new board members. Over the past year, staff has been attending various trainings to better understand the HUD changes as well as their jobs. We lost one staff member and gained another within the past year. We have a 7-member staff to handle 300 public housing units, 249 section 8 vouchers, 120 public housing applicant wait list, 830 section 8 wait list and all they entail. Our staff ratio should be around 11 people and we only have 7 which lends to our deficiencies. Also with dwindling subsidies and "zero threshold" being applied it is obvious that this agency will still have years of work to complete. It is shocking and appalling to be asked to fulfill and meet unrealistic expectations within 12 months without considering the periods of delayed responses, needed staff training, employee entitlements, board changes, administration changes, and increased unit turn over. My staff and I on many occasions have commented that we believe that it is by design that we are being set-up for failure due to unrealistic expectations when our MOA issues reflect years of past practices that are no longer conducive or practical in this ever changing industry. This limits management's ability to conduct the affairs of the commission in a timely and efficient manner.